

**Testimony of  
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Before State of Michigan Energy and Technology Committee  
Regarding SB400  
October 5, 2017**

Committee Chair Nofs, Vice Chair Proos, Minority Vice Chair Hopgood and members of this committee, my name is David McCartney and I am General Manager of Peninsula Fiber Network, LLC and PFN Next Generation Services, LLC. I am here today to provide information about PFN's estimated cost to deploy Next Generation 911 Network and Functionality throughout the State of Michigan and the Michigan Public Service Commission's oversight of the NG 911 cost reimbursement process.

The information included in this testimony applies equally to PFN and its wholly owned subsidiary PFN NGS for the provision of NG 911 service in the Lower Peninsula of Michigan.

**PFN's Cost Estimates 2018 to 2025**

PFN's estimates that the cost to provide NG 911 Network and Functionality for all types of devices (wireline, wireless and other non-wireline) throughout the State of Michigan by December 31, 2019 and to continue providing those services will be:

<u>Calendar Year</u>	<u>Dollars</u>
2018	\$11,700,000
2019	\$20,100,000
2020	\$25,200,000
2021	\$25,000,000
2022	\$24,600,000
2023	\$23,400,000
2024	\$22,100,000
2025	\$21,300,000

These estimates are based on the following information

- 1) For *counties that have converted* to PFN's Next Generation 911 offering
  - a. The population for those counties based on 2010 US Census
  - b. The MPSC reviewed cost of providing PFN's Next Generation 911 offering in that county with one exception, Gladwin county. For Gladwin county, those costs are under current review by the MPSC Staff and a reimbursable rate per population has not been set. The cost of providing service in that county was recalculated with no startup cost to estimate the expected recurring cost five years after conversion. This rerun reduced the expected MPSC reviewed cost by 15.6%.
  - c. Size of this group
    - i. 30 counties
    - ii. Population 1,365,039 including Gladwin County with a population of 25,692
- 2) For *counties that have passed a resolution* for PFN to be that county's Next Generation 911 provider and issued a Letter of Authorization to proceed but have not converted yet to PFN
  - a. The population for those counties based on 2010 US Census
  - b. The weighted average by population of the MPSC reviewed cost of providing PFN's Next Generation 911 offering for twenty-nine counties. This weighted average did not include Gladwin county. This weighted average calculation was also done for the cost studies rerun with no startup costs amortization.
  - c. The targeted conversion quarter agreed to with each of these counties
  - d. Size of this group
    - i. 36 counties
    - ii. Population 4,184,369
  - e. Note two of the four districts of Wayne County have issued resolutions for PFN to be that district's Next Generation 911 provider and issued a Letter of

Authorization to proceed. Note, because PFN was estimating NG911 cost at the county level, all of Wayne County was included in the next group.

- 3) For counties that have not passed a resolution for PFN to be that county's Next Generation 911 provider nor issued a Letter of Authorization to proceed with that conversion
- a. The population for those counties based on 2010 US Census
  - b. The weighted average by population of the MPSC reviewed cost of providing PFN's Next Generation 911 offering for twenty-nine counties.
  - c. A targeted conversion quarter so that the remaining population is spread over 2018 and 2019 so that no more than 825,000 people are targeted to be converted each quarter.
  - d. Size of this group
    - i. 17 counties
    - ii. Population 4,337,188 – this group includes a little over one million people in Wayne County whose Governing Authorities have issued a resolution selecting PFN to be their Next Generation 911 provide and issued the related LOA

The estimated costs to provide NG 911 Network and Functionality was then calculated for each county for each quarter from January 1, 2017 forward. Note: for counties that began the conversion process during a calendar quarter, the NG 911 estimated cost for the quarter of conversion for that county was set at zero. Costs for the expected converted counties (all three groups) were estimated as the product of the applicable MPSC reviewed cost per population noted above (usually the weighted average costs), times corresponding population times three (months in a quarter). Total estimated cost for each county was then summed for each quarter

and the total estimated cost for each quarter was summed to arrive at the estimated total cost of providing NG 911 network and functionality statewide for all devices.

It is important to note that no reimbursements have occurred based on estimated cost nor are any future reimbursements expected to occur based on estimated cost. PFN expects that future reimbursements for providing NG 911 network and functionality will continue to be based on actual costs as determined by a full review by the MPSC.

### **MPSC OVERSIGHT OF NG 911 NETWORK AND FUNCTIONALITY REIMBURSEMENT OF COST INCURRED**

PFN is currently reimbursed for its cost to provide wireless NG 911 Network and Functionality through the U-14000 fund based on the MPSC confirmation that PFN is billing per the reviewed rate per person as included in PFN's tariff outlining the "Schedule of rates, charges, and regulations governing E9-1-1 (or its functional equivalent or successor) throughout the State of Michigan" ("PFN's NG 9-1-1 Tariff"). This part of the review by the MPSC is near the end of the conversion process. The process began several years ago with the initial development of PFN's NG 9-1-1 Tariff.

PFN's NG 9-1-1 Tariff is a 34-page document, issued July 14, 2014 with an effective date of July 15, 2014. The tariff outlines the territory covered by the tariff, regulations applicable under the tariff, responsibilities of purchase of tariff services and PFN, a description of the services to be provided and the rates and terms that the services described will be provided. This document, along with other agreements that may be signed with the county, serve as the basis for PFN's relationship with the counties. Before this tariff was filed with the MPSC, PFN provided the MPSC Staff (in 2014) a copy of that tariff for their review and input. Based on that review, the MPSC Staff suggested several changes. PFN agreed with those changes. Apart

from filing an identical tariff for Lower Peninsula counties under PFN NGS and changes to add new territories and rates related to newly reviewed cost study, the tariff today is the same tariff reviewed by the MPSC Staff in 2014.

Based on discussions with the MPSC Staff, it was decided that since Total Service Long Run Incremental Cost ("TSLRIC") standard was then currently used by the MPSC (at that time) to determine the reasonableness of communication services under its jurisdiction, that PFN should prepare a cost study that identified 100% of the direct cost of providing the NG 911 service described in its tariff and provide support and justification for the inclusion of those direct cost in this TSLRIC based study. This study would need to also include support and justification for network design and configuration.

Note: under this arrangement, PFN must build out / purchase all network component and configure the network prior to the targeted first cut date so that the network and its interaction with the counties CPE vendor (most times brand new equipment) can be fully tested. Our plan calls for the network needs to be in place at least three months before the first targeted cut. With the number of moving targets, the norm has turned out to be closer to six months that the network needs to be ready before the actual first cut. Additionally, PFN makes a significant investment in coordinating with all LECs (wireline, wireless and others) to make sure their networks are interconnected with PFN's network, the applicable MSAG is clean, all data (including address information) has been exchange and is in the appropriate format, circuits tested and ready to carry live 9-1-1 traffic and all parties understand their responsibilities as they related to the day or days of conversion. Typically, PFN invests at least a dollar per population for start-up and related capital investment. It is PFN's capital invested (at least one dollar per population) that it will not get back if its design and processes are not appropriate per the MPSC's review.

Per these directives, PFN prepared a TSLRIC based study for each county (sometimes groups of counties that have worked together) and submitted those studies to the MPSC staff. Our targeted filing date for this study is shortly after the first cutover of service when a large percent of the LECs carrying 9-1-1 traffic have been converted over to PFN NG 9-1-1 network and functionality. This means that the recurring cost related to network and functionality are known and at least one set of invoices for these services has been received, reviewed and paid. All of this reduces the estimates that must be made in the study. However, because of the length of time for review and the timing delay after first conversion, PFN also has a significant dollar (capital) exposure related to ongoing recurring costs.

The MPSC Staff thoroughly reviews the TSLRIC direct cost study and supporting documentation. At this point, the Staff sends PFN a list of questions they want answered and request for additional documentation or rational. PFN then responds to these questions and provides requested documentation to the Staff. This process continues until the MPSC Staff is satisfied that PFN has supported the proposed rates or adjusted the proposed rates to agree with Staff's calculated just and reasonable rates.

The TSLRIC study reviewed is for 9-1-1 calls from all types of devices, wireline and wireless. One of the last steps in the TSLRIC direct cost study is a splitting of the cost of providing NG 911 network and functionality between wireline and wireless recovery mechanisms (technical charge and U-14000). Based on expected call volumes, approximately 80% of the approved costs are allocated to wireless, U-14000 recovery. Under SB-400, 100% of these approved costs would be covered

Now the review of costs for wireless NG 911 network and functionality turns to invoicing and PFN getting paid for those invoices. First, PFN creates a draft of its tariff to reflect the results of the reviewed and accepted costs study including the counties involved, effective date of service and applicable rates. A copy of that draft is sent to the MPSC Staff for their review. Once the MPSC Staff says it is acceptable, PFN files the revised tariff pages with the MPSC. In a relatively short period, the MPSC returns the documents to PFN stamped with date received and PFN posts a copy of those pages on their website. At this point, PFN starts the request for reimbursement process as outlined in current law.

PFN creates an invoice for this county or group of counties for period of time allowed by law and files it as an attachment in case U-14000. I believe the MPSC reviews this invoice and makes a recommendation to the MPSC Commissioners whether to approve or not. The MPSC then approves this invoice as part of a "Minute Action" and forwards this authorization to the Michigan Department of Treasury. The Michigan Department of Treasury processes the payment for distribution and wires the funds to PFN approximated twenty-one days after MPSC "Minute Action". It is important to note that the MPSC would not accept the inclusion of any cost for extending PFN's standard terms from 30 days to 135 days. So, PFN effectively finances the cost of providing this service for in excess of 100 days.

It is my belief that the above review system works well for both the people of the State of Michigan and PFN. The cost of providing all costs are thoroughly reviewed by people that understand the telecommunication environment in Michigan and understand the regulatory environment. In Michigan, I believe MPSC Staff are highly cognitive of the impact NG 911 services should have on the 9-1-1 services within Michigan and take their responsibility to review PFN's stated cost very seriously. Further, PFN recovers 100% of their costs in a

reasonably timely fashion. Finally, both the people of the State of Michigan and PFN accomplish this without the significant cost, including legal cost, of a full rate case.

As side from the review process, PFN works to keep the MPSC informed of counties we are talking to about our NG 911 offering, those counties that have selected PFN as their NG 911 service provider, the targeted cut date for those counties, actual cut dates, issues with those cut dates, final cut over to PFN's NG 911 service and other matters related to PFN's NG 911 offering that we think the MPSC should be aware of.